

## Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SP-02 ICA-20 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 AGRE-00 DOE-15 SOE-02 /120 W

-----108889 080555Z /11

R 080520Z JUN 78

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 1510

INFO AMCONSUL HONG KONG

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

UNCLAS SECTION 1 OF 2 SEOUL 4823

E.O. 11652: N/A

TAGS: ECRP, ECON

SUBJ: GNP: FIRST QUARTER 1978 AT ABOVE AVERAGE LEVELS (CERP  
0101)

1. THE BANK OF KOREA (BOK) RECENTLY RELEASED PRELIMINARY FIRST QUARTER 1978 GNP DATA WHICH SHOWS A 15.8 PERCENT REAL GROWTH, THE THIRD BEST FIRST QUARTER ON RECORD, SURPASSED ONLY BY THE 18.9 PERCENT AND 16.2 PERCENT GAINS RECORDED IN 1973 AND 1976 RESPECTIVELY. THIS GROWTH RATE IS EVEN MORE SURPRISING SINCE THE FIRST QUARTER REGISTERED A 5.1 PERCENT FALL IN AGRICULTURAL OUTPUT. WHILE MANUFACTURING SHOWED A STRONG 19.4 PERCENT GROWTH RATE, THE REAL IMPETUS TO THE BOOMING FIRST QUARTER CAME FROM CONSTRUCTION AND SOCIAL OVERHEAD CAPITAL (INFRASTRUCTURE) SECTORS, UP 26.4 PERCENT OVER THE FIRST QUARTER OF LAST YEAR.

2. CONSTRUCTION, BOTH RESIDENTIAL AND NON-RESIDENTIAL, TOGETHER WITH FIXED CAPITAL INVESTMENT IN MACHINERY AND EQUIPMENT ARE FUELING A STRONG DOMESTIC EXPANSION THIS YEAR. TOTAL GROSS FIXED INVESTMENT WAS UP A NEAR RECORD  
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46.9 PERCENT IN THE FIRST QUARTER WITH PRIVATE CONSTRUCTION SHOWING A 47.6 PERCENT GROWTH RATE. THE CONSTRUCTION BOOM IS BEING FUELED BY TORRID ACTIVITY IN THE HOUSING SECTOR WITH PRIVATE DWELLINGS SHOWING A 165.- (SIC) GROWTH RATE OVER THE FIRST QUARTER OF 1977. THIS ACTIVITY IS EVIDENT IN BOTH URBAN AND RURAL AREAS WITH LARGE APARTMENT HOUSES IN THE CITIES AND NEW SINGLE FAMILY DWELLINGS DOTTING THE

COUNTRYSIDE. ONLY CONSTRAINTS IN MATERIALS AND LABOR MAY SLOW THIS ACTIVITY SOMEWHAT IN THE MONTHS AHEAD AS THE COUNTRY, WITH AN ESTIMATED FORTY PERCENT PLUS HOUSING SHORTAGE, HAS A NEARLY UNSATIABLE APPETITE FOR NEW HOMES.

3. THE FIRST QUARTER ALSO SAW A REVERSAL IN THE PREVIOUS DOWNTREND IN PRIVATE CONSUMPTION EXPENDITURES WHICH REGISTERED AN 8.3 PERCENT GAIN. THE HOUSING BOOM IS BEING COMPLEMENTED BY INCREASED DEMAND FOR HOUSEHOLD ELECTRICAL APPLIANCES. THE DEMAND FOR REFRIGERATORS IS UP 50 PERCENT OVER LAST YEAR AND SALES OF AIR CONDITIONERS ARE AT PEAK LEVELS. AT THE END OF MARCH THE SEOUL WHOLESALE AND RETAIL TRADE INDICES WERE UP 30 PERCENT OVER 1977 LEVELS.

4. CAPITAL INVESTMENT IS ALSO AT HIGH LEVELS. NON-RESIDENTIAL CONSTRUCTION SHOWED A 45 PERCENT GAIN OVER THE FIRST QUARTER OF LAST YEAR WITH INVESTMENT IN MACHINERY AND EQUIPMENT UP BY 50.5 PERCENT. GOVERNMENT CONSTRUCTION SHOWED A SATISFACTORY 27.7 PERCENT GAIN.

5. THE FOREIGN SECTOR, WHILE STILL STRONG, DEFINITELY HAD TAKEN THE BACK SEAT IN THE FIRST QUARTER. COMMODITY EXPORTS GREW BY 19.3 PERCENT IN THE QUARTER, FAR BELOW THE 60.9 PERCENT IN THE FIRST QUARTER OF 1976 AND THE 27.7 PERCENT GAIN REGISTERED IN 1977. COMMODITY IMPORTS, HOWEVER, SHOWED A STRONG 33.3 PERCENT GAIN AS IMPORTS OF UNCLASSIFIED

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CAPITAL EQUIPMENT AND MATERIALS ROSE.

6. ON AN EXPENDITURE APPROACH, THE PERCENTAGE COMPARISONS BETWEEN THE FIRST QUARTER OF 1977 AND 1978 ARE AS FOLLOWS:

	1ST Q 1977	1ST Q 1978
TOTAL CONSUMPTION	6.7 PCT	10.1 PCT
PRIVATE	5.8	8.3
GOVERNMENT	13.3	22.2
GROSS INVESTMENT	-16.2 PCT	110.2 PCT
FIXED CAPITAL FORMATION	14.8	46.9
EXPORTS OF GOODS & SERVICES	33.4	21.7
LESS IMPORTS OF GOODS & SERVICES	20.3	35.2
GNP	10.2	15.8
NATIONAL SAVING AS PCT OF GNP	16.1	20.2

(ALL DATA IN 1970 PRICES, NOT SEASONALLY ADJUSTED)

7. IN THE MANUFACTURING SECTOR, LIGHT INDUSTRY GREW BY 12.5 PCT AND HEAVY INDUSTRY BY 29.1 PERCENT. BEST

SHOWINGS IN LIGHT INDUSTRY WERE RECORDED BY RUBBER (26.3 PERCENT), BEVERAGES (21.3 PERCENT), AND PLYWOOD (16.3 PERCENT). IN THE HEAVY INDUSTRIAL SECTOR, TRANSPORTATION EQUIPMENT REGISTERED A STRONG 56.5 PERCENT GROWTH (NEW CAR SALES HAVE MORE THAN DOUBLED THIS YEAR) FOLLOWED BY MACHINERY (32.6 PCT), CHEMICALS (29.8 PCT), ELECTRICAL EQUIPMENT (28.4 PCT) AND METALS (26 PERCENT). GAINS IN THE LATTER ARE DIRECTLY ATTRIBUTABLE TO CONSTRUCTION ACTIVITIES. -MORE-  
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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 1511

INFO AMCONSUL HONG KONG

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8. COMMENT: THE RAPID GROWTH REGISTERED IN THE FIRST QUARTER IS CERTAINLY ABOVE EARLIER EXPECTATIONS. (IF AGRICULTURAL SECTOR HAD PERFORMED NORMALLY, 1978 WOULD PROBABLY HAVE APPROACHED IF NOT SURPASSED THE 1973 RECORD.) THE DOMESTIC SECTOR HAS BEEN, TO DATE, THE REAL ENGINE OF GROWTH IN 1978 BUT GROWING SHORTAGES OF MATERIALS, E.G., CEMENT, STEEL, ETC., WILL PROBABLY RESULT IN A SLOWDOWN IN THE MONTHS AHEAD. THE GOVERNMENT IS REPORTEDLY CONCERNED THE BOOM MAY GET OUT OF CONTROL AND IS CONTEMPLATING POLICY MEASURES, INCLUDING CURBS ON GOVERNMENT EXPENDITURES AND INCREASED IMPORTS, TO MODERATE THE PACE AND ATTEMPT TO CHECK RISING PRICES. THE QUARTER DEMONSTRATED THERE IS A PENT-UP CONSUMER DEMAND HERE. WITH THE ECONOMY HIGHLY LIQUID AS A RESULT OF THE RAPID GROWTH IN THE MONEY SUPPLY OVER THE PAST TWO YEARS, THE KOREAN CONSUMER IS BEGINNING TO UTILIZE HIS BUYING POWER.

9. THE BOK NOW BELIEVES THAT REAL GROWTH IN 1978 WILL RANGE

BETWEEN 13 AND 15 PERCENT, DEPENDING ON THE AGRICULTURAL SCTOR  
THREATENED BY EXTREME DROUGHT CONDITIONS IN MANY AREAS.  
UNLESS PROBLEMS ARISE IN OTHER SECTORS, THIS PROGNOSIS APPEARS  
ACCURATE.  
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## Message Attributes

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